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Can We Control Productivity?

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Can We Control Productivity?

The establishment by the President of a National Commission on Productivity provides an opportunity for an investigation in depth of a crucial problem facing this nation. The wage-price dilemma in which this nation finds itself is basically a productivity crisis. Inflation is only a result, not a cause. The real problem is that money wages are rising faster than manhour output.

Experience both in the United States and abroad indicates that a free economy in peacetime cannot control prices, nor can it control wages. The question then remains: if we cannot control wages and we cannot control prices, can we control the rate of increase in output per manhour?

Surprisingly little attention has been given to this key question either by businessmen or economists. Elaborate studies have been made of the rate of productivity growth in the economy as a whole and in particular industries. Other investigations have sought to account for the major components of economic growth in the United States. One writer has prepared what he calls "A Menu of Choices Available to Increase the Growth Rate"[1] in the United States, but these proposals relate primarily to the supply of the factors of production rather than to the productivity of labor.

To the writer's knowledge no one has proposed a concrete program which might be followed to achieve an accelerated rate of productivity improvement in American Industry. The fact is that most discussions of productivity have been unproductive. In view of the priority given to the issue of productivity by the President, the time is ripe for an analysis of the potential for greater productivity in our economy. It is the purpose of this article to

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[1] Edward F. Denison, The Sources of Economic Growth in the United States and The Alternatives Before Us, New York: Committee on Economic Development, 1962, pp. 275-281

suggest a positive program which might be recommended by the National Commission on Productivity or some other similar government agency as a first step toward a national policy designed to accelerate the rate of productivity increase in the American economy.

Measurement of Productivity Gains

Statistics of increased productivity are generally referred to as measuring the increase in productivity of labor. Such a presentation tends to create the impression that in some way labor is responsible for the increased output and so is entitled to a lion's share of the gains deriving from improved productivity. Actually, productivity could just as well be stated in terms of any other factor of production, such as per dollar of capital invested. Productivity is simply a ratio between output measured in specific units and any input factor, also measured in specific units. It is important to recognize that an index relating labor input and output, such as output per man hour, reflects the combined influence of numerous variables, including changes in technology, capital investment, rate of plant utilization, managerial efficiency, and scale of operations, as well as skill, quality and effort of the labor force.

The most widely used statistics on productivity are those published by the Bureau of Labor Statistics of the United States Department of Labor. The BLS measures output in terms of the constant dollar value of the goods and services produced in the private sector of the economy. This means that an estimate must be made of the value of final goods and services produced and this figure is then deflated by a price index so as to eliminate the effect of changing prices.

Because of the complexity of our economy, the millions of individual operating units and the paucity of accurate statistical data, productivity calculations whether made by the Department of Labor or other research organization are from beginning to end based upon estimates, imputations and intelligent guesswork. Certainly there are grave doubts about the validity of imputing significance to such statistics when they are carried out to decimal

points. Nevertheless, when we are dealing with a long period of years, the statistics available can serve to give us a reasonable idea of the basic underlying trend in productivity.

Productivity Trends

For the decade of the sixties, productivity in the private economy -- as measured by output per manhour -- rose at an annual average rate of about 3 per cent.[2] In manufacturing, the rate of growth of man hour output has been less than for the entire private economy, primarily because the latter figure reflects the high rate of growth in the agricultural sector. Productivity in agrculture has been growing at a rate of almost 6 per cent per annum or more than double the rate of the nonfarm sector.[3]

Growth in output per manhour varies significantly from year to year and in manufacturing bears a close relationship to capacity utilization. Typically, high rates of productivity gains are registered in the early stages of cyclical recovery when unused human and capital resources are put into use. Thus, in the postwar period, productivity gains were greatest in the recovery years of 1950 (8.2%), 1955 (4.4%) and 1962 (4.7%).[4] The recent recession in business depressed productivity gains so that for the year 1969 output per manhour in the private economy grew at a rate of less than one per cent -- the smallest increase in 13 years.[5] Most economists believe that as the economy recovers and production increases, manhour output will return to its historical rate of annual advance.

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[2] Monthly Labor Review, Vol. 93 (May 1970), p. 30

[3] Manpower Report of the President, April 1967, p. 23

[4] Ibid., p. 32

[5] Manpower Report of the President, March 1970, p. 36

The Outlook for the Future

The Council of Economic Advisers in its Annual Report transmitted to Congress in February 1970 estimated that for the period 1970 to 1975 output per manhour in the private sector of the economy would grow by about 3.1 per cent per year.[6] If this prediction is valid, then this nation is facing a serious inflationary threat for which the current purgative of recession offers no remedy. Collective bargaining settlements negotiated during the first quarter of 1970 for workers covered by major agreements averaged about 8 per cent and the UAW leadership has already announced that it intends to seek even higher gains in its negotiations with the automobile companies.

Such large wage adjustments will swamp the effect of modest increases in productivity and will impose substantial increases in unit labor cost upon American industry. Labor cost is the single most important component of price. In the period from 1965 to 1969, its relative importance varied from 62 1/2 to 65 per cent of price.[7] In 1969 labor costs per unit of product rose 7 per cent -- the sharpest advance for employees in the private nonfarm sector since 1951[8] -- while the consumer price index rose 5.4 per cent.[9] If manhour output resumes its historical rise at about 3 per cent per annum, but wage increases average 8 per cent and more in key industries, we can expect prices to rise at least by 5 per cent per year, since profit margins, which have been severely cut as a result of the current recession, will have to be widened if industry is to remain healthy.

The political consequences of a continuing inflation in this country of this magnitude could be disastrous. Such a rise in prices would

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[6] Economic Report of the President, p. 84

[7] Ibid., p. 53

[8] Ibid., p. 51

[9] Ibid., p. 56

aggravate the purchasing problems of the poor; would acerbate the resentments of the middle class; and would magnify the cost of doing all the things which need to be done to improve the quality of life in this nation. Racial problems, balance of trade, urban redevelopment -- to mention only a few: these and other problems would become even more intransigent to solution.

But is the situation really so bleak, it may be asked. What about the increasingly high level of educational attainment of our workforce? Can we rely on added brain power to accelerate the rate of productivity improvement? It is true that the level of scientific and educational achievement of the labor force is an important ingredient in the determination of the rate of productivity increase. As a matter of fact, Professor E. F. Denison has estimated that between 1929 and 1957 over 3/5 of the growth in output per manhour was attributable to increased education.[10] In recent years, the level of education and scientific achievement appears to be increasing at an accelerating pace. For example, employment of natural scientists and engineers reached 1 1/2 million in 1968, about double the number employed in 1953.[11] At the same time there has been a remarkable upgrading in the educational standards of the labor force. By 1975, the adult work force (25 years old and over) will include as many college graduates as those with 8 years of schooling or less.[12]

With such a notable record of achievement, one might expect a concomitant improvement in the rate of productivity increase. But the fact is that the generalized improvement in our educational and technical standards has been going on continuously over a long period of years, yet it has not produced any where near the magnitude of the increase in

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[10] E. F. Denison, op. cit.

[11] Manpower Report of the President, March 1970, p. 167

[12] U.S. Department of Labor, Special Labor-Report #95, April 1968, p. 10

productivity which is now required. Moreover, in the years ahead, unless positive steps are taken by government to produce a business environment in which technological progress is encouraged, it seems likely that institutional, governmental and sociological barriers will nullify much of the improvement which might otherwise be generated by the increase in our store of technical knowledge and the upgrading of our labor force.

It is unfortunate -- but nevertheless true -- that change and progress are becoming bad words among the intelligentsia as well as among the ordinary citizens of this country. The sudden recognition of the magnitude of the problems created by pollution, overpopulation, and other ills of an industrial society has so overwhelmed many Americans that subconsciously they are inclined to seek a Ghandi-like back-to-nature philosophy as a solution to our problems rather than a redirection of our efforts in the technological sphere. The impact of this attitude revolution is certain to affect the policy decisions of many governmental agencies in their relations with business enterprises. At the same time, business executives now face a whole new set of problems which must be taken account of in determining whether or not to invest in a new type plant or to produce a new product.

The rate at which new ideas from the research laboratories are translated into technological improvement in the industrial process depends fundamentally upon management's evaluation of the anticipated payoff from the new process, plant, or product. The element of risk and uncertainty is always present in such computations but today the impact of consumerism and concern over the environment has introduced factors which greatly increase the risk in making such decisions and therefore may retard the rate at which new -- and therefore relatively untried -- methods and facilities are introduced by industry.

It is a sobering fact that national concern over industry's impact upon the environment may have the effect of fueling the fires of inflation while at the same time retarding the advance in productivity. Pollution controls, for example, will add millions of dollars to industry's cost of production and will pour additional purchasing power into the income stream without at the same time increasing productivity as conventionally

measured. Indeed, the necessity of carrying on production without fouling the air and polluting the water may produce an actual reduction in manhour output in some industries.

Can a Government Partnership With Business be Productive?

The future prognosis for an accelerated rate of productivity, therefore, is not bright. It is understandable why the Council of Economic Advisers and other responsible sources project increases in man hour output for the future at a rate roughly comparable with past trends. Consequently, if we continue to rely on the market mechanism and the individual and uncoordinated decisions of thousands of businessmen as the modus operandi for productivity improvement, we shall undoubtedly face a continuing inflationary rise in the price level.

A major breakthrough in productivity can be achieved only if we are ready to modify the existing system by which new ideas are transformed into individual applications. Government must actively encourage improvement in productivity as a major objective of public policy and must take steps, in cooperation with industry, to bring about coordinated and systematic changes in processes, techniques and products so as to achieve a higher rate of improvement in manhour output.

What right do we have to believe that an advanced industrial economy can achieve sustained annual increases in manhour output in excess of 3 per cent? One reason for optimism is suggested by the experience of Japan which appears to be achieving rates of growth in output per manhour of 9 to 10 per cent per annum.

Critics will justifiably point out that there are exceptional circumstances in the Japanese experience and that in any case the United States is unlikely to match the rate of growth in manhour output achieved by other rapidly growing nations. The reasons are obvious. In the first place, America is a leader. The procedure of copying and utilizing the

best techniques and machinery of an advanced economy offers the prospect of a much greater increase in productivity to countries in which industrial practice is still below optimum than to a country that is already highly advanced. In the second place, capital is more abundant in the United States than elsewhere relative to the number of workers employed. It is therefore probable that in most foreign countries the same percentage increment of capital will add a larger percentage increase to output per worker than in the United States. Economists would say that the marginal productivity of capital may be relatively lower in the United States since more of it is in use relative to labor than in foreign countries.

Despite these constraints, there are sound reasons for believing that the potential for increasing productivity in this country is enormous. No other country has the wealth of technical knowledge, the depth of scientific personnel, nor the sophistication in computer application that we have in America. At the same time, the waste and inefficiency in industry is likewise enormous. Much of this inefficiency did not become apparent until the development of the systems analysis approach to the solution of industrial problems. It is now becoming increasingly obvious that without some measure of planning, without some coordinating agency to assist industry in taking an overall view of complex operational and distribution problems which extend beyond the perimeter of the individual firm, we shall be unable to utilize effectively the technical knowledge which we have and which if properly applied can substantially increase productivity in our economy.

Suggested Areas For Study

There are a number of areas which a government commission, such as the National Commission on Productivity, should investigate as possible avenues to accelerated improvement in productivity. The following suggestions are not intended to be exclusive but merely indicative of the kinds of questions whose exploration might prove fruitful:

Greater Standardization of Output.

How can we achieve greater standardization in our industrial output? Businessmen achieve efficiency internally by standardization but they produce inefficiency externally by proliferation of sizes, colors, weights, and other product and packaging variations which bear no necessary relationship to the products of other companies. A striking example is found in shipping cartons which are now produced in whatever size suits the fancy of the particular manufacturer without any consideration as to whether or not such sizes and shapes are the same as cartons used by other manufacturers or can be fitted conveniently on a pallet with cartons of other producers. A recent check of carton sizes in a large chain food warehouse revealed there were over 1600 different sizes and shapes of shipping cartons in use. Such proliferation makes automation difficult, renders handling expensive and time-consuming, and increases damage at every stage of distribution.

Efficiency in distribution would benefit materially from the development of a modular packaging system in which both retail package sizes and carton shipping sizes were limited in number and designed so as to facilitate automatic handling and pallet loading. European countries are already putting various modular programs into effect. For example, in Germany textile wholesalers and retailers, buyer organizations, cooperatives, mail order houses and department and specialty stores have agreed on standardized dimensions for both consumer packages and shipping containers for a number of categories of textile merchandise. In this country, however, thus far, there has been little interest in such a program and virtually no action.

What is needed in this area is governmental prodding to get industry associations to agree upon proposed standards for their particular lines of products. Left to their own initiative, industry associations will never solve the complexities of this problem in a timely fashion. It took the food industry fifteen years to achieve general agreement on the use of two sizes of pallets -- and this is an industry with a rather remarkable record of cooperation among various industry components. We

cannot afford to wait a comparable period of time for voluntary action on modular packaging. If the process of standardization is to get underway, an appropriate government agency must first lay out a comprehensive plan, hold hearings on an industry by-industry basis, and monitor action as a part of a continuing and major program. The United States Department of Commerce currently expresses interest in modulation, but has too many varied activities to give this problem the commitment of time and resources which it deserves.

The problem of carton and package standardization is only one part of the broader problem of product proliferation which is a major source of inefficiency in both manufacturing and distribution in this country. Consumers are confused by the variety of models, sizes, grades, and types of products which flood the marketplace and make value comparisons impossible. At the same time, such proliferation burdens manufacturers with added costs on the production line and imposes higher inventory carrying costs throughout the distribution channel. Such proliferation was expensive when interest charges were 4 per cent; it becomes a heavy burden when interest costs including the requirement of compensating balances exceeds 8 per cent. If through some form of intra-industry agreements we could cut down by 25 per cent the current proliferation of variety within product lines, a major step would be taken in improving productivity and reducing costs in industry. A reduction of models in the automobile industry, for example, would reduce costs and enable American manufacturers to compete more successfully with European producers who long ago recognized the economies in concentrating production on a relatively few models.

How could such "anti-proliferation" agreements be implemented among competing companies without detriment to the public interest? Competing firms could not agree with one another not to produce certain varieties or models of products without violating the anti-trust laws. Some overseer function for government seems required both to legalize such agreements and to insure that the public interest is protected.

Two models of this kind of action are currently in operation and may point the way to broader application of such procedures:

In the airline industry where proliferation of routes and schedules has led to excess capacity and ruinous competition, Secor Browne, Chairman of the CAB, is encouraging airline executives to talk to one another about swapping routes, adjusting schedules, or otherwise reducing duplication and proliferation of product, which in this case is scheduled service. Such discussions are supposed to be carried on in the presence of a CAB - appointed referee to avoid charges of anti-trust violation.

Under the Fair Packaging and Labeling Act, more popularly known as the "Truth in Packaging Law", the Secretary of Commerce was directed to seek voluntary industry standards for packaging if he found that a product is being sold in quantities which makes value comparisons difficult for the average consumer. As a result of action taken by the Secretary of Commerce, industry committees have been convened and voluntary standards adopted in a number of product lines. For example, the number of different package sizes for tooth paste have been reduced from 57 to 5; for dry cereal from 35 to 16; and for detergents from 24 to 8.

Perhaps this kind of procedure involving industry committees deliberating with a government representative present might be used to achieve a reduction in sizes and varieties in a broad range of industries. The condition of such agreements would be that measurable savings in cost be effected and that the benefit of such savings be passed on in whole or in part to consumers. As an added precaution in consumer goods industries, a representative of Virginia Knauer's Consumer Office might be required to be present during industry deliberations to represent the consumer viewpoint .

There are of course obvious dangers in the broad application of such procedures. In effect we are substituting the judgment of a few individuals for the collective judgment of the marketplace. This poses a danger to privat enterprise -- but so does inflation. The fact is that the action of the marketplace had encouraged wasteful proliferation which the economy may no longer be able to tolerate.

Freedom to vary the product may seem to be an essential -- and untouchable -- component of the marketing mix in a free enterprise system. Yet other parts of the marketing mix -- pricing and advertising for example -- have been subjected to numerous regulations and yet private enterprise has survived. Product variation is an essential counterpart to freedom of choice in the marketplace; but proliferation carried to extremes can create such inefficiency and price inflation that the ultimate consumer -- for whose benefit product variation supposedly exists -- will be the real loser.

Inter-industry Cooperation

How can we achieve greater inter-industry cooperation so as to make possible major break-throughs in technology? In a less complex period of our economic development, it may have been sufficient to allow productivity improvement to rest upon the individual decisions of individual companies who innovated in their plants and put pressure upon suppliers to devise new techniques and equipment to meet their needs. In our complex society today, however, there is an obvious need for a systems-oriented approach to problems which frequently must cut across industry lines and require the cooperative effort of many companies and industries. Essentially, this process was involved in our space effort which enlisted the cooperative efforts of a multitude of companies in a variety of industries but with a common objective. Another example is the California Systems Development Project which has attempted to integrate the efforts of numerous industries, companies, and disciplines in achieving a systems approach to the school building process in thirteen school districts.

The idea of planning change on an inter-firm and inter-industry basis is a logical extension of recent developments in management theory which stress the fact that innovation and efficiency are profoundly affected by the structure of organization within which decisions as to productivity are made. For example, Professor Charles A. Myers maintains that "the structure and philosophy of management in an enterprise are important determinants, perhaps the determinants, of enterprise efficiency and hence of labor productivity."[13] (italics in original). He concludes that "Greater efficiency and higher productivity in the industrial society .... require greater attention to organizational structure...."[14]

As the technology, distribution patterns and marketing problems of our economy have become increasingly complex, individual firms have recognized the necessity of reaching out for the expertise of other companies. Joint ventures in new product areas, for example, have become increasingly common. At the same time, within individual companies decisions as to new products and processes have involved the expertise and deliberations of an ever-widening group of executives. Participative management has resulted in shared decisions. The result has been better

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[13] Charles A. Myers, "Management and Enterprise Efficiency", in Labor Productivity, J.T. Dunlop and V.P. Diatchenko, eds. New York: McGraw Hill Book Co., 1964, p. 336

[14] Ibid., p. 349

decisions resting on a broader base of knowledge and the assurance of more expeditious implementation.

It seems likely that some of the same kinds of advantages would flow from the extension of the structure of decision-making in certain areas to an industry basis. Such planning may be necessitated by the growing national concern over pollution. The race to build new plants and achieve a competitive advantage without regard for what effect the geographic location of such plants might have upon the environment may already be part of a closed era. The point is that if we are to have an effective environmental policy, we shall be inevitably led to a greater involvement in industry planning and this may well provide a structure for the making of decisions as to productivity which will be more effective than the present system.

Consolidation of Productive Capacity

Should we attempt to achieve greater consolidation of production in low-cost productive capacity? As advanced technology becomes more sophisticated and expensive, the gap between the most efficient and least efficient producers in particular industries may widen. Greater size does not necessarily mean greater efficiency, and as a matter of fact in a number of industries the largest producers do not have the most modern and most efficient plants. Nevertheless, optimum use of new technology may in some cases require larger production volumes than are achieved by existing industrial concerns. This may already be the case in the electric power industry where some industry spokesmen believe that cooperative efforts of individual firms as part of an overall grid system is not the most efficient method of making electric power available to consumers on a reliable and lowest cost basis.

We seem to be entering an era in which in most industries in most of the highly industrialized nations there will be relatively few companies and they will be large, technologically advanced and international in scope. The market is rapidly becoming the world and continuing improve-

ments in transportation and communication will accelerate this already obvious trend. Other nations -- Great Britain, France, Italy, West Germany, and Japan -- are moving in the direction of sanctioning and even promoting bigness in industry in a search for efficiency. In Great Britain, the Industrial Reorganization Corporation was established with the specific objective of promoting and assisting the rationalization of British industry. According to one observer, the IRC has tried to "identify the most progressive and dynamic managements in an industry where structural change is needed and use these companies as the nuclei for larger groupings."[15] In view of these trends, can we afford to cling to long-standing attitudes and policies toward bigness in industry which may no longer make sense in a different economic environment?

The problem is that the needs of productive efficiency may clash with what has long been a major objective of public policy in this country -- that is, to protect the little businessman. The question now has to be asked: To what extent should we protect the small producer and the small businessman if the result is a higher level of prices? In agriculture manhour output has been increasing at a rate of about 6 per cent per annum or more than double the rate for the nonfarm private economy. This increase has been achieved at the expense of the elimination of many small inefficient farm units and the consolidation of output into highly mechanized large farm establishments. Would a similar acceleration in productivity be achieved in nonfarm industry through a consolidation of output in larger units? Is it a mere coincidence that in both Japanese industry and American agriculture there have been phenomenal increase in productivity associated with consolidation of production into larger units - or does bigness have a relationship to productivity gains?

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[15] Geoffrey Owen, "Toward Bigness in Industry: The IRC Performance", Productivity Digest, Vol. 5, No. 2, June 1969, p. 32.

These are difficult questions with serious political and social overtones. Any careful study of productivity and its potential in this nation must consider the role of the antitrust laws. Perhaps an additional criterion needs to be added to the considerations weighed by administrative agencies and courts, namely the effect of a merger or business practice on the cost of manufacture and distribution of goods. In the realm of business practice there is a need for a new rule of reason which would consider the ultimate effect of such practices on the consumer. Does it really make good economic sense to declare illegal per se, as in the Schwinn case,[16] an effort by a business in a competitive industry to restrict its outlets to the most efficient distributors and thus strengthen the intra brand distribution system in its competitive conflict with other integrated types of distribution? If manufacturers in the rubbertire industry were to come together in a meeting and decide that henceforth they would produce only four grades of tires instead of the present confusing variety, should this be considered illegal per se on the same basis as a conspiracy to control prices? In these and similar cases should not all the circumstances be examined including the effect on costs and prices and the existence of foreign competition as a regulator of prices? If we are really serious about finding means to increase productivity and efficiency in American industry, some modification of the current interpretation and application of our anti-trust laws may be required. Perhaps the public interest would be better served if the current emphasis of the United States Supreme Court on the effect which mergers and various forms of restrictive agreements have on competitors were altered to consider the impact upon costs and prices.

Buy-Out of Inefficient Labor Practices

What can be done by government to assist industry in "buying-out" inefficient labor practices that limit the introduction of improved technology? It is useless to condemn make-work practices of organized labor; other groups in the community are also guilty of similar restrictive practices. But it is possible to eliminate some of the most burdensome of these practices through buy-out agreements whereby some advantages or

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[16] U.S. vs. Arnold Schwinn & Co., 388 U.S. 365 (1967)

compensation are offered to workers in exchange for changes in practices, methods, or organization which will improve output per manhour.

Such productivity agreements have become increasingly common in British industry in recent years, although they are still limited in extent. Nevertheless, productivity bargaining received explicit sanction from British Government incomes policy which has permitted pay increases above prevailing norms (including in certain periods a zero norm) for groups of employees "accept more exacting work or a major change in working practices".[17] A prominent American economist who studied the British experience concluded:

> "....on the basis of scattered returns productivity bargaining shows considerable promise. Estimated net reductions in the neighborhood of 10 to 15 per cent of the wage bill do not appear to be uncommon....."[18]

In the United States, the classic example of productivity bargaining is the so-called "Modernization and Mechanization" contract negotiated between the Pacific Maritime Association and the International Longshoremen's and Warehousemen's Union (ILWU) in 1960 (and renewed in 1966). Under the terms of this agreement, the Union agreed to abandon most of its restrictive work practices as well as its historical resistance to mechanization in return for a commitment by the industry to pay into a jointly managed fund five million dollars per year for five and a half years to provide guaranteed wages and pensions benefits for workers.

The success experienced by a number of companies in applying the so-called "Scanlon Plan" is further evidence of the fact that employees can be encouraged to welcome technological change with a resultant benefit to costs and productivi if they are offered a participation in cost-savings.[19]

The idea of productivity bargaining, therefore is not new, but its applicat might be greatly extended if government were to establish a fund to assist varic industries in eliminating practices which inhibit improvement in productivity.

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[17] Lloyd Ulman, "Collective Bargaining and Industrial Efficiency", in R.E. Caves ed. Britain's Economic Prospects, Washington, D.C.: The Brookings Institution 1968, p. 366

[18] Ibid. p. 364

[19] F.G. Lesieur and E.S. Puckett, "The Scanlon Plan has Proved Itself", Harvard Business Review, September-Oct. 1969, pp. 109-118.

Such funds could be made available on a long-term loan basis at low interest rates. Unlike a continuing subsidy, allocations from the fund would be on a one-time basis to accelerate the elimination of wasteful work practices. A condition of access to the fund might be an agreement by management that part or all of the net reduction in costs effected would be reflected in lower prices to buyers. In England the 1965 White Paper required that "some of the benefits (from proposed productivity agreements) should accrue to the community as a whole in the form of lower prices".[20]

There are, of course, some obvious dangers in such an approach. The knowledge by organized labor that there is a government fund ready to buy out wasteful practices may serve as an inducement to devise new and more costly work-practices which can then be "sold" for a price. This, and other approaches suggested in this article, will not work unless there is a gradual change in attitudes toward productivity by business, labor, and the public. If we can develop a national concern about productivity as a key to fighting inflation, then it may be possible to elicit more responsible action from management in the area of pricing and from labor in the realm of work practices.

The Need for A Productivity Policy Debate

Even if governmental action in all of the foregoing areas were likely to produce an acceleration in manhour output -- which obviously must be open to question in our complex society -- there are numerous valid objections which can be advanced against the undertaking of such a program. Perhaps the greatest flaw is that without some sort of controls -- government taxation or similar measures -- there is no assurance that higher manhour output in industry will be translated either into reduced prices or a slower rate of increase in the price level. Theoretically, in the short run, the full benefits of the increase in productivity could be converted into higher corporate profits.

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[20] Ulman, op. cit., p. 367

This caveat is particularly applicable to a governmental policy which might sanction larger corporate aggregations and therefore seemingly produce situations in which monopoly power could be exercised to retain the benefits of increased productivity as higher profits. Mergers may create opportunities for more effective use of productive facilities, but ultimately it is a management decision whether the facilities will in fact be used for low-price high-volume production, or low-volume high-price operation. Government cooperation in the search for greater productivity as a means of curbing inflation may, therefore, lead to an undesirable involvement of government in pricing decisions.

Although this is a complex and formidable problem, it is possible that some constraints could be devised which would require companies to pass on benefits in lower prices (or lesser price increases) where such benefits flowed from actions taken pursuant to government designed procedures to improve productivity. Thus, as has already been suggested, permission for industry groups to reduce the number of models and sizes of products and allocations from the government subsidized technology fund could both be made contingent upon appropriate management action with respect to price adjustments.

A second objection is that the program outlined in this paper requires industry planning and that adoption of such a policy under the aegis of government is only one step removed from nationalization of industry. This, the writer believes, is a needless fear. Industry is going to have to accustom itself to more government supervised planning in the years ahead, particularly in the area of protection of the environment, but such coordinated planning need not compromise the essential attributes of our private enterprise system. The plan proposed in this article does not envisage governmental compulsion. Rather, there should be established a government commission armed with a clear statement of Congressional policy and with ample funds for research, staff, and assistance in implementation of industry-sponsored projects. It is surprising what a governmental agency can accomplish through the judicious use of persuasion and money. This has been the modus operandi of the Industrial Reorganization Corporation in Great Britain.

A third problem is created by the fact that productivity is not an unmixed blessing. Increased productivity may mean displacement of labor through a stepped up rate of technological unemployment. Obviously the support of labor could be gained for such a plan only if adequate provision were made through supplementary benefits to ease the dislocation which would certainly be produced for many workers in American industry.

Despite all these admitted problems, the idea of planned productivity is worthy of careful consideration. No other measures holds forth any reasonable prospect of dealing with what Professor Raymond J. Saulnier has so aptly called the "wage explosion" — an explosion which is occurring all over the industrialized world. Wage and price controls will not work and will only create dislocations in normal channels of distribution. Fiscal and monetary restraints must be used to some extent but if primary reliance is put on either or both of these devices the repercussions upon employment and output could be serious.

The current National Commission of Productivity can make a useful beginning in the study of productivity, but it cannot cope with the problems presented in this paper. It has neither the necessary mandate from Congress nor the cooperation of industry and labor to undertake an investigation into productivity unfettered by conventional attitudes toward business organizations. What is needed first is an inquiry into the true productivity potential of this nation and a debate as to whether or not it is in the public interest to attempt to achieve this potential. As we are already discovering from our pursuit of a cleaner environment, the achievement of one desirable objective may require the sacrifice of others. Certainly in the area of productivity improvement there would have to be a major reorientation of our established policy toward enforcement and interpretation of the antitrust laws,

a sacrifice which many citizens and legislators may be unwilling to make.

Out of such a debate, it is possible that there could emerge a viable national policy for improvement in productivity. Such a program might include the following:

1. A strong statement of national policy by Congress and the President
2. Establishment of a permanent National Commission on Productivity with adequate funds, staff, and powers
3. Establishment of a Technology fund financed in part or whole by the federal government
4. Convening of industry committees to discuss means of improving productivity
5. Relaxation of the antitrust laws to permit such industry committees to function.

Management and Productivity

Management readers may view the foregoing proposals both as impractical and dangerous to the private enterprise system. Perhaps they are -- but so are the alternatives. A distressingly high percentage of businessmen and economists seem to be leaning more and more in the direction of seizing upon wage and price controls as a panacea, forgetting the damage which such controls can do to profit margins and established channels of distribution. As far as productivity is concerned, there seems to be little awareness of the urgency of this problem or recognition of the fact that doing what we have always done in the past in terms of improving manhour output simply is not going to suffice in the future. Where are the foresightedness and innovative ideas of management spokesmen in this key area?

Despite sophisticated and elaborate forecasting techniques which they use in their own companies, businessmen suffer from acute myopia in predicting vital issues and trends in the economy as a whole. Management underestimated the strength of consumerism; likewise, it

discounted the drive against pollution. The appointment by the President of the National Commission on Productivity is a harbinger of an increasing national concern about productivity and a precursor of greater governmental involvement in this vital problem. It is time for management to take off its blinders and begin active discussions in business circles of what can and should be done to achieve an accelerated rate of productivity increase in the future.